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COOCAFE, R.L

INTRODUCTION

As 1994 was drawing to a close, Carlos Murillo was busy wondering how to move ahead with the marketing of Café Foresta. The company he managed, Coocafe R.L., had been exporting this brand name coffee, primarily to Germany, for nearly two years, and marketing it as a way in which retail customers could both contribute to the development of a third world society and help preserve its threatened rain forest eco-system at the same time. Retail consumers paid an extra \$1.00 per Kg. (2.2 lb) for Café Foresta, however, came in a non-recyclable package and was not an organic coffee production, most of Café Foresta was grown with the use of chemical pesticides, herbicides and fertilizers. Café Foresta's traditional positioning as "environmentally friendly" was likely therefore to be endangered as environmental non governmental organizations (NGO's) initiated campaigns to publicize to consumers that coffee production could prove as damaging to the environment as the conservation projects supported by Café Foresta were beneficial. As a result, Coocafe faced

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a dilemma over the future production, marketing, promotion, and existence of their Café Foresta brand.

COOCAFE R.L.-

Coo cafe R.L. began operations in 1988 with the technical support of the German based Friedrich Ebert Foundation. Coo cafe's mission was to unite regional cooperatives of the smallest and poorest coffee growers in Costa Rica under one administrative organization in order to provide them the market power necessary to obtain a fair price for their product. Coo cafe sought to aid the economic development of Costa Rica's poor rural areas in order to maintain their culture, social structure and natural environments. The company began by bringing together three cooperatives from the Pacific regions of Tilaran in Guanacaste province and Miramar Montes de Oro in Puntarenas province. Coo cafe placed its headquarters in Canas, Guanacaste since its original scope of operations was in the dry Pacific region.

In May of 1994 Coo cafe moved its headquarters to the town of Río Segundo in Alajuela province in the central valley of Costa Rica. The company had been expanding its sphere of operations and needed offices closer to its cooperatives in the central valley and the Atlantic side of the country. This office also gave them better access to the heart of Costa Rica's business activities in its capital of San Jose. By November of 1994, Coo cafe had grown to encompass seven regional cooperatives including over 2,500 farmers, and was negotiating to bring an eighth cooperative under its umbrella.

The average farmer involved in one of Coo cafe's cooperatives planted only 1.3 ha. (3.2 acres) of coffee versus 10 - 15 ha. (25 - 37 acres) for the average Costa Rican coffee farmer. Coo cafe farmers had a total of 3,250 ha. (8032 acres) in production as of November 1994. Like most small Costa Rican coffee producers, Coo cafe producers generally maintained other subsistence crops (e.g. corn or beans) on their land as well. These producers were the poorest of Costa Rica's farmers, completely dependent upon their land and its productivity. While Coo cafe sought to help stabilize the prices that these farmers received, the prices were still subject to the fluctuations of the world market.

Coo cafe provided much needed business information and expertise to its affiliated cooperatives, performing external audits of the business practices and organizational structures of all affiliated cooperatives. They supported the investigation of new technologies that would allow the farmers to better exploit their available

resources. They lent financial and administrative assistance in the form of consulting, and assisted cooperatives in obtaining secure lines of credit in order to develop new projects. They conducted investigations into the viability of other agricultural crops that would allow their farmers to diversify production and generate a more stable income. They also set up computer systems to improve the technical efficiency for all of their cooperatives.

Coocafe also assisted its cooperatives in establishing reforestation projects, soil conservation programs, and general plans for environmental protection. They created incentive programs to encourage education, cultural expression, and good health. Finally, they helped the cooperatives to develop alternative markets, and production methods.

In addition, Coocafe set up several mills so that the farmers could process the coffee cherries into green beans themselves. This processing allowed Coocafe to directly return more of the profits from the sales of the coffees to the growers. Coocafe's roasted export coffees were all roasted, ground, and packaged by Café Britt (a gourmet coffee company in Costa Rica), under a co-packing agreement that paid Café Britt a fee for its services. There was no profit sharing arrangement between the two companies.

PRODUCTS AND MARKETS-

As of December 1994, Coocafe was exporting five brands of coffee (Café Autentico, Yambo Direct, Café Costa Rica Directo, Café Paz, and Café Foresta) and macadamia nuts. Exhibit A details total yearly sales of Coocafe export coffees and their value to the company in U.S. dollars. Coocafe exported approximately 32,500 bags of coffee during the 1993/94 season. In December, 1994 Coocafe was receiving \$209 per 60 Kg. (132 lb.) bag of green coffee it sold, regardless of brand. 95% of Coocafe's coffee exports and all of its macadamia nuts were sold in Germany, Belgium, Holland, and Switzerland.

Coocafe's export products were generally sold through alternative markets. Alternative markets for Coocafe coffee involved retail channels that sold all sorts of products from third world producers, for example, handicrafts, coffee, chocolate, clothes, etc.).

Café Autentico was milled, blended, roasted, ground, and packaged in Costa Rica and then shipped to Germany for sale. Café Autentico was distributed by Gepa, a distribution company for shops

specializing in third world products profiting small cooperative producers. These shops were independently owned but were linked together through an association for retailers of products from third world producers. Gepa was owned by German church based non-governmental organizations (NGO's) (e.g. Misereor, KED, Bread For The World, etc.) Café Autentico was marketed with a promotion strategy that highlighted the fact that sales of this coffee directly supported small third world producers and their communities rather than a large multinational food company. It carried the TransFair symbol, a "fair trade" seal that signified this promotional angle to the consumer. Transfair was an independent trade organization that certified and promoted products that supported poor third world communities. The Transfair seal, and others like it issued by the Max Havelaar and Fairtrade organizations, were known as "fair price" or "fair trade" symbols because they only promoted the products of small cooperative producers from developing countries in order to ensure that they would receive a "fair price" that would allow them to develop while preserving the cultural and social traditions of their societies. The use of this seal, for example, helped Coocafe obtain twice the market price for their coffee when world coffee prices were at an historic 25 year low in 1993.

Yambo Direct, was also fully processed in Costa Rica. It was shipped to Belgium for retail sale in shops specializing in agricultural products profiting small producers from developing countries. Yambo Direct was distributed in the Flemish speaking half of Belgium by Oxfam-Wereldwinkels and by Magasin du Monde in the French speaking half of the country. Both of these distributors owned their own retail stores through which the product was sold. Like Gepa in Germany, both of these distributors were owned by church based NGO's in Belgium. Yambo Direct was marketed in the same way as Café Autentico. It also used a promotion strategy highlighting the fact that sales of this coffee directly supported small third world producers and their communities rather than a large multinational food company. Yambo Direct carried the Max Havelaar seal to signify who received the profits from the consumer. This was another "fair trade" seal like TransFair, but Max Havelaar was actually the first such organization to certify and promote the products of poor third world farmers. This seal also helped the producer obtain twice the market price for their coffee when world coffee prices were at their historic low in 1993.

Café Costa Rica Directo was also milled, blended, roasted, ground, and packaged in Costa Rica. It was shipped to Holland for sale as part of a line of similar country specific Directo coffees marketed by FAIRTRADE Organisatie throughout Holland. FAIRTRADE

Organisatie owned six of their own stores through which they sold the product. Like Gepa in Germany, they also distributed it to the members of a Dutch association of 320 independent shops that sold products produced in the third world. FAIRTRADE Organisatie's promotion strategy was the same as that used for both Yambo Direct and Café Autentico, but the consumer had a choice of a countries that their money would go to. Shops specializing in third world products that profited small producers carried the whole Directo line. Café Costa Rica Directo also carried the Max Havelaar seal, which also helped its producers to obtain twice the market price for their coffee when world coffee prices were at their 25 year low in 1993.

Café Paz was a fourth coffee that was milled, blended, roasted, ground, and packaged by Coocafe. It was sold mainly in the United States and marketed with the theme that buying coffee that directly benefits small poor producers will improve their living conditions and help maintain the peace and stability that characterizes Costa Rica. The majority of Café Paz was sold in the U.S. to retail customers mainly through the direct mail catalogs of Self Help Handicrafts (SERRV) and Catholic Children's Fund. It was also sold through two retail shops run by SERRV. Some Café Paz was also distributed through direct mail in Australia by Community Aid Abroad Trading, and in New Zealand by Trade Aid Importers Ltd.

Coocafe macadamia nuts were distributed by Oxfam-Wereldwinkels in Flemish Belgium and Spinrad in Germany. Both of these distributors sold the nuts through their own chains of stores. Oxfam-Wereldwinkels stores specialized in third world products while Spinrad stores specialized in natural and exotic products. Coocafe Macadamias did not carry a "fair trade" seal because, as of the end of 1994, these seals were only used to certify coffee, cocoa, tea, honey, and sugar. These nuts were in such high demand that Coocafe had run out of supply midway through each of the three years they had sold them. In 1992 Coocafe sold 4,500 Kg. (9,900 lb.) of macadamia nuts, in 1993 they sold 5,500 Kg. (12,100 lb.), and in 1994 they sold 10,500 Kg. (23,100 lb.) at a price of \$9.76 per Kg. (2.2 lb.)

CAFÉ FORESTA.

The fifth type of Coocafe coffee was Café Foresta., which was promoted as a way to help the environment. The collapse of the International Coffee Agreement (ICA) in 1989 caused world coffee prices to plummet. The ICA, that had been in place since 1962, was an agreement created at the behest of consuming countries of the

north to insure a steady price and growth in supply of coffee by placing quotas on producing countries and guaranteeing a minimum purchase price from consumers. When growth in world supply surpassed growth in world demand in 1989, consuming countries no longer had any use for a mechanism that was artificially creating higher than free market prices for coffee. Without the ICA to stabilize prices, world prices for coffee began to drop and producing countries responded by pushing their reserves onto the market (further increasing supply) so that they could get the highest price possible before prices fell further.

The collapse of the ICA served to reinforce Coo cafe's belief that the history of north-south economic relations was one in which the northern countries mined commodities and raw materials from the southern countries for their own development, with the south always ending up as the loser. Coo cafe's solution was a project which would enable them to export a value added coffee product to the developed north. In June of 1990 the ideas for Café Foresta and Café Paz were born.

The Guanacaste region of Costa Rica had been hardest hit by the deforestation of the previous forty years. See exhibit B for an illustration of the massive deforestation of Costa Rica between 1940 and 1987. The entire country had lost two-thirds of its natural forest cover, but Guanacaste had suffered even more severe deforestation because of the strong impact of the cattle industry in that region which caused rain forest to be converted to grazing land. Deforestation had led to environmental problems (e.g. soil erosion, landslides, etc.) that impacted the livelihoods of the farmers in Coo cafe's cooperatives. As this impact increased, Coo cafe had also become conscious of the increasing anxiety in developed countries about the world's environment. They were aware that this concern was generating a growing demand for eco-products. Coo cafe hoped that products that helped the environment could also obtain a higher price from these concerned consumers.

Coo cafe developed the idea for a coffee called Reforesta that it would market to the environmentally aware consumer in developed nations. This high quality coffee would charge the consumer \$1.00 extra per Kg. (2.2 lb.), with the promise that this money would go to support reforestation projects initiated by the poor producers of this coffee. These projects would help preserve an environment that, in spite of its small size (19,650 sq. miles or about half the size of the state of Tennessee in the U.S.A.), was the only home in the entire world for 5% of the planet's species. At the same time, the project

would also preserve the social and cultural structures of the small farmers who produced the coffee.

Coocafe submitted their ideas for Reforesta and a sketch of a package design to several clients, and other people with knowledge of eco and "fair trade" markets in Europe and the United States. Coocafe was looking for guidance on how to proceed with the development of this initiative. The concept was refined through discussions with these advisors and the result was Café Foresta. This coffee would be a high quality coffee sold in Europe in 250 g. (8.9 oz.) and 500 g (1.1 lb.) packages. It would be offered in espresso and regular roasts, and in whole beans or ground. Ground coffee would be vacuum packed and whole beans would be packed with nitrogen in a special valved pouch to help it retain freshness. The package was to be constructed of laminate made from aluminum, paper, and polypropylene in order to protect the product from light and oxygen, and thereby ensure that it would have a shelf life of one year. The package would have a dynamic graphic design picturing a lively tropical forest bursting with flora and fauna. The purpose of the extra dollar per Kg. (2.2 lb.) that was charged to was expanded to include funding for sustainable development projects in addition to reforestation projects.

PRODUCT DISTRIBUTION, PRICING, AND MARKET SHARE-

The first Café Foresta was exported to Switzerland in September, 1992. On October 9th 1992, this coffee was introduced to the public at a press conference by Coocafe and Café Foresta's Swiss distributor O.S.3. In November, 1992, the Vice President of Costa Rica and the Minister from the Ministry of Natural Resources, Energy, and Mines (MIRENEM) traveled to Europe in order to promote Café Foresta and its sustainable development initiative, and to obtain a fair price for this coffee's small producers. They were successful in finding a Dutch client (Neuteboom) that immediately applied for a license to import the coffee to Holland and Germany. The coffee was introduced to the Dutch and German markets in January, 1993. By the end of 1993 Café Foresta was also being sold in very small quantities in England, Australia, New Zealand and the United States under the name Forestal Café.

In November of 1994, 95% of Café Foresta was sold in Europe for \$8 for 500 g. (1.1 lb.), while standard coffees produced by the major multinational companies sold for approximately \$6.67 per 500 g. Café Foresta was being sold in Holland and Germany through the Dutch coffee company Neuteboom. This company roasted and distributed a number of different blended coffees to markets in

Holland, Germany, Belgium, and Luxembourg. Neuteboom was heavily involved with the Max Havelaar program since the program's inception in 1988.

Neuteboom received a blend of green beans from Coocafe and then roasted, packaged, and shipped them to Holland, Germany, and Switzerland under the brand name Café Foresta. The Café Foresta brand name was owned by Coocafe which ensured that 100% of the green coffee used to produce it would be bought from Coocafe. In addition, Neuteboom paid Coocafe an extra \$3.92 in royalties for each 60 Kg. (132 lb.) bag of coffee it bought to make Café Foresta with the agreement that Coocafe would invest at least half of this royalty payment into promotions for Café Foresta. In December, 1994 Coocafe was receiving approximately \$213 per 60 Kg. of Café Foresta green beans they sold to Neuteboom.

Café Foresta was distributed by Neuteboom in Germany and Holland to stores specializing in eco-friendly and "fair trade" products. The target retail market was made up of "fair trade" and eco-conscious coffee drinkers who relished good coffee enough to buy a high quality specialty coffee. The main retail distributor for Café Foresta was a large German chain named Spinrad that had 120 stores specializing in natural and exotic products. Café Foresta was also sold through eco-product stores, eco-supermarkets, and regular supermarkets (e.g. DeBoer in Holland) in both Germany and Holland. In Switzerland, O.S.3 distributed Café Foresta after receiving it from Neuteboom. It was distributed to retail customers through an association of some 600 independent third world product and eco-product stores, and also through the direct mail catalog of the Swiss chapter of the World Wildlife Fund (WWF). In addition, at the close of 1994, Coocafe was negotiating with a large distributor in the U.S.A. in order to widely introduce Forestal Café in the U.S.A. and Canada.

In 1994, 75% of world sales of Café Foresta were to Germany. Holland, and Switzerland absorbed another 20%. The final five percent was actually roasted, ground, and packaged in Costa Rica for Coocafe by Cafe Britt. Distribution of this final 5%, under the name Forestal Cafe, was spread between the U.S.A., Australia, New Zealand, and England. Worldwide sales of Café Foresta in 1994 totaled 3,065 of the standard 60 Kg. bags.

PROMOTION-

Jan Putz, a journalist and the host of a popular German eco-news program called Hobbytek, visited Costa Rica in January of 1993, and

showed his viewers the environmental problems of the region that Café Foresta was attempting to save. Hobbytek also published a monthly magazine, with a circulation of 300,000, that ran the story. Putz became the number one promoter of Café Foresta in his country, aiding its commercial introduction by Neuteboom. Through 1994, Hobbytek had continued to include 5 - 10 minute stories about Café Foresta in its television broadcasts a couple of times per year. The Hobbytek magazine also made mention of Café Foresta in every issue and occasionally ran stories about Café Foresta.

In fall, 1994, Coocafe began employing a "Test Visit" promotional strategy for Café Foresta. This involved a contest that gave a 10 day trip to Costa Rica to some lucky customer who won a raffle drawing among all customers that had mailed in 15 proofs of purchase. In addition, all customers that sent in the 15 proofs of purchase necessary to enter the drawing received an information packet, a postcard, and a rain forest poster through the mail. The packet detailed the sustainable development projects that had been funded through the extra \$1.00 per Kg. that consumers paid for Café Foresta. The winning customer and a companion were flown to Costa Rica for their vacation. Much of the vacation included tours through the areas where the extra money they had paid for Café Foresta was being put to use. Coocafe also paid for these winners to be accompanied by the television and news media from their country so that they could also report on the development work that was being funded by Café Foresta.

In addition to the "Test Visit" promotion, Coocafe used a direct mail promotion strategy to send informational pamphlets and commercial information about Café Foresta to potential retail customers and distributors. Exhibits C1 and C2 display the english language version of the informational pamphlet. Another avenue for sales expansion that Coocafe tried was distributing Café Foresta and information about it at eco-product fairs, like the biennial ANUGA fair and Green Week in Germany, through their own promotional stand.

Complementing its promotion as an eco-friendly product, Café Foresta had received the Max Havelaar (Holland) and TransFair (Germany) seals. These "fair price" or "fair trade" seals demonstrated to consumers that the profits from sales of this product went directly to small cooperative producers from developing countries. This enabled these producers to receive a fair price for their product that would allow them to develop while preserving the cultural and social traditions of their societies.

Mr. Putz, Neuteboom, and the Friedrich Ebert foundation in Germany, insisted that the money that consumers were contributing for sustainable development programs be utilized by projects that followed strict scientific guidelines and were managed with complete transparency to the contributor. In response to these concerns, Coo cafe created an autonomous foundation to administer the funds contributed by its customers. This foundation was called Fundación Café Forestal.

FUNDACIÓN CAFÉ FORESTAL

Fundación Café Forestal began formal operations under its own budget in February of 1994. The directive given to Fundación Café Forestal was to attempt to integrate respected experts in various different fields into the sustainable development projects that it supported. The five member board of directors was designed to be made up of one representative named by the foundation's founder, Coo cafe; one member chosen by the President of Costa Rica; one chosen by the city of San Jose; one recognized scientific expert in the field of environmental conservation; and one member from an NGO committed to social and ecological development in rural areas.

The operations of Fundación Café Forestal were made completely transparent, so that any of the customers who purchased Café's Foresta or Forestal could find out exactly where the extra money they were spending was going. A customer could find out about all of the foundation's development initiatives and what was being spent on them just by writing to the foundation in care of Coo cafe at an address printed on the package. The foundation compiled semi-annual reports about the projects that it was funding and implementing. These reports detailed the roles of other community based non-governmental organizations (NGO's) that were assisting in implementation, and the amount of funding that was going to each project. As of July, 1994 The Café Foresta Foundation had pledged over \$53,000 (U.S.) to 14 separate community based projects dedicated to environmental education, protection and management of river basins, reforestation, and prevention of forest fires. The money was disbursed to three different Costa Rican NGO's that executed the actual projects; the Guanacaste Forestry Development Association (AGUADEFOR), The Tempisque Conservation Area (ACT), and The Guanacaste Fire Prevention Committee (CCIG).

GERMAN ENVIRONMENTALISM-

In 1994, Germany had the most stringent environmental regulations in the world, and had been a leader in this area for more than two decades. The Green Party, a political organization with the primary goal of preserving and enhancing environmental quality, was becoming an increasingly important minor party in the German Legislature. Germany was the first country with a nationwide recycling initiative. The "Blue Angel" program, started in the 1970's, placed a blue angel symbol on the packages of consumer products in order to help make retail customers aware of what products had packaging that was guaranteed to be recycled. In 1992, more than 3,200 products in over 60 product categories bore the Blue Angel seal of approval.

In 1990, Environment minister, Klaus Topfer, succeeded in getting a law passed that made manufacturers completely responsible for their products throughout their entire life cycle. The initiative was designed to reduce waste from excess packaging but also applied to hardware products themselves (including automobiles, televisions, etc.) For example, when consumers finished their package of coffee they could take the packaging (bag or can) back to the store they bought it from. The store would then send this packaging back to the manufacturer for final disposition whether it be recycling, incineration, or landfill disposal.

THE GERMAN COFFEE MARKET-

In 1994, approximately 1.9% of the coffee consumed in Germany was from the "fair trade" and eco-friendly segments combined (203,000 60 Kg. bags). 2,299 of these 60 Kg. (132 lb.) bags were Café Foresta, approximately 1.13% of the combined "fair trade" and eco-friendly market segments, and 0.02% of the total German market. The "fair trade" and eco-friendly market segments were generally made up of well educated consumers with middle to high incomes and strong political sentiments. These markets also included some low income devout Christians and students that were interested in the ethical issues connected to third world trade and development. All Coo cafe coffees were targeted to compete within the eco-friendly and "fair trade" market segments.

The German coffee market was highly concentrated in processing and retail supply. Two companies, Aldi-Einkauf and Edusho controlled nearly 60% of the market. They supplied medium quality blends for around \$5.00 (1993 price) per 500 g. (1.1 lb.)

As an individual country, Germany was the second largest

consumer of coffee in the world behind the United States. More importantly, coffee consumption was still growing faster than population in Germany and the European Community (E.C) even though growth in coffee consumption had gone flat for the world market as a whole. From 1986 - 1991 coffee imports to the E.C. grew at an average yearly rate of 4.2%. Citing predictions by coffee market experts, Mr. Murillo said that he expected that the German coffee market to continue to grow at an average rate of 3% per year until the end of the century. See exhibit D for a table of yearly coffee consumption in Germany from 1988 - 1993. Further, 34.4% of all of the coffee imported into the countries of the E.C. was imported into Germany, because the average German drank 7.4 Kg. (16.28 lb.) of coffee per year. The next closest consumer markets in Europe were France and Italy with 18% and 15% of E.C. market consumption respectively.

There was a great amount of competition in the "fair trade" and eco-friendly segments of the German coffee market in 1994. Their were two other coffees competing in the eco-friendly segment with Café Foresta. Café Foresta was a high quality coffee that sold for \$4.00 per 250 g. (8.9 oz.). One of its competitors was called Uciri and was distributed by Gepa. Uciri was a medium quality, organic coffee that sold for \$4.67 (U.S.) per 250 g. It was distributed through "fair trade" stores, eco-products stores and supermarkets. It was promoted through direct mail, catalogs, and informational pamphlets. The second brand was Natura and was also distributed by Neuteboom. This high quality organic blend was Café Foresta's most direct competitor because of its higher quality and lower price (\$4.33/250 g.) than Uciri. Natura was distributed through eco-products stores and supermarkets. It was promoted through direct mail, and informational pamphlets.

Mr. Murillo identified six strengths and five weaknesses of Coocafe's Café Foresta line as the company prepared for 1995.

Strengths:

1. Café Foresta was a novel concept.
2. The two target market segments, "fair trade" and eco-friendly, were clearly defined.
3. Café Foresta had good product design (e.g. packaging, brand name, etc.).
4. The product had credibility in the marketplace.
5. Capital was available to invest in the product.
6. Consumers in these market segments were disposed to paying higher prices.

Weaknesses:

1. Café Foresta was not organic.
2. The price was high in relation to other coffees.
3. The packaging could pollute the environment, because it was made from a non-recyclable laminate of aluminum, paper and polypropylene (a plastic).
4. Coocafe had little experience with distribution or retail channels in Germany.
5. Coocafe had little capacity to cover the entire geographic sales area with a real system for sales promotion.

Mr. Murillo went on to point out that Coocafe's Café Foresta product was also threatened by possible bad publicity from environmental groups that were not well informed about the concept of Café Foresta and the environmental mission of the Foresta Foundation. These groups were opposed to the negative environmental impacts of traditional coffee production. They sought to diminish coffee consumption as a way to mitigate these impacts.

Another significant obstacle to Café Foresta's success that Mr. Murillo identified was the regional retail distribution structure in Germany. In Germany, national retail chains for all types of products were segmented by region. A large supermarket chain might have 300 stores throughout Holland and Germany carrying primarily the same mix of products. In Holland, one buyer could purchase everything for every store in the country, but in Germany every province had to have a different buyer for all of the stores in the province. This meant that a different sales agreement had to be negotiated and serviced in each province. This greatly increased the amount of personal attention and human resources that Coocafe needed to apply to servicing accounts in Germany.

In spite of these threats and obstacles in front of Café Foresta, Mr. Murillo also saw five very real opportunities for Café Foresta.

Opportunities:

1. According to German experts on the "fair trade" and eco-friendly markets, the market segments that this product was targeting were growing.
2. The very nature of these particular market segments helped to facilitate the use of publicity for the product.
3. The product could count on endorsements from several very prestigious German organizations.
4. The good works and successful projects of the Café Foresta Foundation were easily promoted.
5. Café Foresta was supported by government and other NGO's committed to sustainable development projects.

Coo cafe's strategy for increasing the sales of Café Foresta was based on several assumptions regarding the development of their market. Mr. Murillo felt that the price of Café Foresta would never climb above \$8 per 500 g. He explained that this was the upper price limit that German consumers would accept for coffee unless it was organic. He explained that coffee was a very important product in the German marketplace that was often used as a hook (loss leader) to get consumers into retail stores. In addition, he cited experts on the German Coffee market that had reported that after the price rose above \$8 per 500 g. demand began to fall off sharply. Organic coffee showed an upper limit of over \$10 dollars, and beyond that level demand fell off less sharply than with other coffees. Mr. Murillo attributed this to the fact that the organic consumer made their choice based on environmental and personal health ideals for which they were more willing to pay a higher price than the average consumer.

In addition, Mr. Murillo cited German experts on the markets for eco-friendly and "fair trade" products who predicted that consumption in the two target segments would double by 1999. He expected this prediction to come true, because of his own experience in watching these markets grow by 50% in the previous two years. He was also confident that increased competition would not affect Coo cafe's participation in the market because Coo cafe planned to continue fostering consumer awareness about the mission and projects of the Café Foresta Foundation. The Café Foresta Foundation's fulfillment of the ecological promises that they had made to the consumer would also receive increasing publicity which would solidify Café Foresta's image and position in the marketplace.

Finally, Mr. Murillo assumed that both Coocafe and Café Foresta's distributor, Neuteboom, would be quite willing to invest in the brand's growth. Both companies had great optimism about Café Foresta's market potential in Northern Europe and North America due to growing environmental awareness and activism. Therefore, the two partners sought to improve the product's distribution system, increase product advertising, providing information through all types of media to enhance consumer awareness of the environmental/sustainable development concepts behind Café Foresta and the Café Foresta Foundation, and provide similar information to the salespeople in the small eco-product stores carrying Café Foresta to help them improve their personal selling of the product.

THE COFFEE INDUSTRY-

Multinational companies dominate the world market for (unroasted) green coffee. In 1992, 50% of the world's green coffee was imported by seven large firms; Nestlé, Philip-Morris, Kraft-General Foods, Procter & Gamble, Jacobs Suchard, Sara Lee Douwe Eghberts, and Aldi-Einkauf. At the same time, half of the world's processed (roasted in whole beans, ground, instant, etc.) coffee was sold to final retail consumers by five of these companies; Nestlé (16%), Philip-Morris (15%), Procter & Gamble (6%), Jacobs Suchard (6%), and Sara Lee Douwe Eghberts (~6%).

Approximately one third of the world's population drinks coffee. In 1992, the European Community (E.C.) consumed nearly one half of the world's coffee while the U.S. and Canada consumed approximately a third. These ratios had changed little in more than a decade.

From the time coffee was introduced to the American continents for cultivation in the 18th Century, the growth in demand for coffee in the countries of the north had consistently outpaced the rate of growth of supply from the countries of the south. Demand growth in both the U.S. and Canada, however, began to fall off in the 1970's in response to growing competition in the beverage market from soft drinks, and a collateral concern about the possibly detrimental health effects of coffee consumption due to its high concentration of caffeine. By the 1980's the world coffee market had gone flat with growth in consumption equal to the rate of population growth. While growth of coffee consumption had averaged 2.1% per year over the two decades from 1970 to 1990, it had slipped to 1% by 1991 and was projected to remain at that level into the next century. The only segment of the world coffee market that was truly growing was the

emerging specialty coffee market that had sprung up on the west coast of the United States in the early 1970's.

In 1989, world supply finally surpassed demand and the International Coffee Agreement (ICA) of 1983 collapsed. The ICA, that had been in place since 1962, was an agreement created at the behest of consuming countries of the north to insure a steady supply and price of coffee by placing quotas on producing countries and guaranteeing a minimum purchase price from consumers. The agreement collapsed because over supply caused producers to give discount sales to non-members of the agreement, there was general disagreement over the distribution of export quotas, and there was disagreement concerning product selection (i.e. what types and qualities of coffee were made available in relation to the taste requirements of the consuming countries). Once supply surpassed demand, consuming countries no longer had any use for a mechanism that was artificially creating higher than free market prices for coffee.

World prices for coffee began to drop and producing countries responded by immediately pushing their reserves onto the market (further increasing supply) so that they could get the highest price possible before prices fell further. Since newly planted coffee trees take two to three years to come into production, world production and exports continued to grow until the 1991/92 season when they reached their historic maximum of 104 million 60 Kg. (132 lb.) bags of green coffee produced. Approximately 75% of this coffee was exported. Between 1988 and 1991 the world price for coffee lost 38% of its value.

Production then dropped dramatically (over 11 million 60 Kg. bags) between the 1991/92 and 1992/93 seasons as prices continued to fall. By 1993 coffee prices were lower than they had been in 25 years. The 71 million bags of coffee exported by producing countries in the 1992/93 season garnered only \$5.3 billion (U.S.) on the world market. This was down dramatically from \$9.22 billion (U.S.) earned by a volume of exports only 500,000 bags higher in the 1988/89 season.

If not for a retention agreement instituted by the 29 members of the Association of Coffee Producing Countries (ACPC) in October, 1993, in conjunction with the general lowering of production, prices would have stayed depressed. This plan required members to retain up to 20% of their production from the world market, depending on prices. When prices rose high enough they would be able to sell off this retained stock. This scheme worked by keeping over 4 million

bags of coffee off the world market in the first six months alone and generated a price boom in the world coffee market. By May of 1994 prices had doubled over their levels just one year earlier, and producers were realizing profits for the first time in over four years.

In addition, prices were pushed up to near record levels after a frost in July, 1994 destroyed a large portion of the 1994/95 & 1995/96 Brazilian crops and helped boost world prices. This freeze was significant enough to push prices up to even more profitable levels for the world's producers because Brazil was responsible for nearly 30% of total world coffee production. By November, 1994, world coffee prices had tripled from their level just 18 months earlier (from less than \$80 to over \$240 per 60 Kg. bag of green beans).

THE SPECIALTY COFFEE MARKET-

Demand continued to dwindle in the world coffee market through 1994 except in the booming specialty segment. Numerous producers were trying to figure out how to gain access to this specialty market, but this was not easy. Producers needed to have a gourmet (Hard Bean or better) caliber product, with a rich aroma and low acid content. Then producers needed to find a way to distribute, differentiate, and market their coffee directly to consumers. Otherwise, no matter how good the coffee was, it would just be bought by one of the big multinationals and end up mixed with other coffees in a Maxwell House can on the supermarket shelf.

Specialty coffee retailers (e.g. Starbucks coffee houses) generally bought high quality green beans and roasted them themselves. Some specialty stores also sold coffees that had been roasted in the country of origin although this was less common. Specialty coffees were normally sold in different roasts (Light, Dark, Espresso, Flavored or Decaffeinated) based on country of origin. Marketing strategies like "fair trade", organic, and eco-friendly also made a coffee a specialty coffee if it was of high enough quality. Differentiating coffee in the specialty market by obtaining organic certification or funneling the proceeds from sales to a specific cause were less frequently used. In addition, many retailers found it difficult to market one coffee that made claims about how it didn't harm the environment or exploit workers while they were selling 100 other coffees that couldn't make the same claims.

THE "FAIR TRADE" AND ECO-FRIENDLY MARKET SEGMENTS-

"Fair trade" products and markets began appearing in the 1980's as a response to the growing perception that third world producers of

agricultural commodities were being exploited by an unequal trading relationship with developed countries. Agricultural commodities, like coffee and cocoa, typically left their country of origin as an unprocessed raw material and were sold through many intermediate levels before being processed and sold to the final retail consumer in a developed country. Third world producers lost the opportunity to add value through processing, and all of their potential profits were often eaten up by trading middlemen because the producers lacked access to the final market. Often, the coffee or cocoa producers didn't even make enough to cover their costs.

Fair trading was a concentrated effort to develop more direct trade linkages between consumers in developed countries and producers in developing countries in order to directly return a "fair" level of profits to those whose hard work produced these commodities. By removing the role of intermediate traders and giving the producers direct access to their markets, fair trading intended to develop mutual respect between consumers and producers and to close the gap in profit level between developed and developing nations. The idea was that many consumers want high quality agricultural products, but they also would like to be able to have their purchase decisions contribute to solutions of some of the problems that face producers of these products. The major problems facing these producers were rooted in their poverty. "Fair trade" consumers, however, might also be driven by a concern for the environment that would motivate them to pay a premium for natural and/or organic products.

The "Fair Trade" movement took off in 1988 with the formation of the Max Havelaar foundation in Holland. This foundation sought to create direct alliances between third world producers of high quality agricultural products and the Dutch consumers of these products. In 1993, an organization similar to Max Havelaar, called TransFair, emerged in Germany and spread into Austria, Luxembourg, and Japan by the middle of 1994. January 1994 marked the emergence of the London based Fairtrade Foundation that provided a market presence for "fair trade" goods throughout the U.K. By fall, 1994, Max Havelaar had expanded to Belgium, Switzerland, and France.

Max Havelaar, TransFair, and Fairtrade neither bought nor sold agricultural products. They found third world producers with high quality goods to sell and consumers who wanted the goods. By removing all of the middlemen that usually played a part in commodity trading, these organizations helped both sides form a sales agreement that would give the producer the best possible price. "Fair Trade" goods were sold to consumers through small stores specializing in

exotic, third world, and "fair trade" products. They were also sold through church organizations concerned with issues of development

in the third world and equality between developed and developing nations. In addition, these three organizations gave a seal of approval to be placed on the products generated through any of these trading arrangements, that would signal to the consumer that the final product returned a "fair" share of profits to the third world producer.

Coffee was one of the first commodities that Max Havelaar helped to promote on the "fair trade" market. The organization quickly identified an unfair profit distribution that resulted from the trade structure that brought it from the developing world to developed countries. In 1992, coffee producers still earned only \$0.18 out of every \$2.30 that a European consumer paid for a 250g. package of coffee. As of 1994 this crop was still the most important source of foreign exchange for the countries of Central America. "Fair Trade" coffee distributed by Max Havelaar and TransFair received a minimum guaranteed price and at least 10% above this minimum when the market price climbed above the agreed upon minimum price. In 1994, Gepa (the German "fair trade" distributor) estimated that 44% of the sale price of "fair trade" coffee goes to the third world producers.

The eco-friendly market emerged in Germany in the 1980's in response to growing public concern with the world's environmental problems. Environmental consumers bought products based on whether they were healthier, cleaner, organically produced, created less solid waste (less packaging, recyclable, etc.), profited environmental causes, etc. These consumers were believed to be so concerned with the environment and their own health that they would pay more for products that met the aforementioned criteria.

Eco-friendly products were distributed to retail customers in small specialty stores that sold natural, exotic, and third world products (e.g. Spinrad in Germany), sold only eco-friendly products (e.g. Reform in Germany, The Body Shop, etc.), or through catalogs that supported environmental organizations (e.g. The World Wildlife Fund in Switzerland). By 1994, there were so many different eco-friendly products of all types in Germany and Holland that these products were also being sold through eco-supermarkets and in eco-product sections in major Dutch and German supermarkets (e.g. UNIGRO in Holland).

COFFEE (THE CROP)-

Coffee is grown on evergreen trees in 60 countries throughout the global tropics. It comes in two major species; Robusta and Arabica. The Robusta species dominates the coffee grown in Africa, while the Arabica species is dominant in the Americas. Asian producers grow both types just as frequently. A third species, Liberica, is also occasionally grown by coffee producers, but there is no significant world trade in this species.

Coffee quality is judged based on acidity of taste, aroma, and bean density. The highest quality coffee in the world is grown in volcanic soil at moderately high altitudes. Volcanic soil is acidic and porous, both characteristics that are preferred by coffee trees. Coffee is usually grown at altitudes below 1,600 m. (5,200 ft.). Altitudes higher than 1,600 m. can produce very dense and aromatic coffee beans, but it increases the coffee trees' susceptibility to frosts. A frost can destroy an entire coffee plantation for two to three years. High quality coffee needs a generous amount of sun and rain. In Costa Rica, the best coffee (designated "Strictly Hard Bean") is grown at altitudes between 1,200 m. (3,900 ft.) and 1,600 m. (5,200 ft.), gets about 2,500 mm. (98") of rain over 155 days, at an average temperature of 19C (66F).

The nature of the evergreen coffee tree makes its productivity cyclical. A tree begins producing coffee cherries in either its second or third year. By the time it is five it has reached maximum productivity. From then on, the tree's productivity will cycle between high productivity for one or two seasons and then low productivity for the following one or two seasons. Although coffee trees can continue being productive until they are approximately 35 years old, their production usually begins to decline rapidly after they are 30. Therefore 30 year old trees are normally removed and replaced with new saplings. Over the years coffee trees have become more productive and capable of producing higher quality coffee due to the introduction of green revolution technologies (e.g. more disease resistant species, chemical pesticides, herbicides and fertilizers, etc.).

COFFEE HISTORY IN COSTA RICA

Coffee was first brought to Costa Rica from Africa and planted in 1791. The Costa Rican climate altitude and soil were perfect for growing high quality coffee. By 1820 Costa Rica was exporting two quintales (a quintal is equal to about 45.5 Kg.) of coffee to Panama per year. After the country gained independence from Spain, the government of Costa Rica gave six hectares (15 acres) of land to every adult male citizen and encouraged them to plant coffee. Coffee

has long been promoted by the Costa Rican government as a source of foreign exchange for developing the country; many Costa Ricans followed the government's advice and began growing coffee for export.

In 1832 Costa Rica began exporting coffee to Chile and this coffee was then re-exported to London. In 1845 the country began exporting its coffee directly to London. 1933 marked the birth of the Coffee Defense Institute and the Office of Coffee was created by the government in 1948. The first initiative on the Office of Coffee was to mandate the planting of the Arabica species of coffee throughout Costa Rica. Production of the highly caffeinated and acidic Robusta species was outlawed. Arabica was generally thought to be the highest quality type of coffee available. Since Costa Rica was small it decided to grow only the best coffee and therefore make the most money possible from this crop. In 1985 the Office of Coffee changed its name to the Institute of Coffee and became commonly known as ICAFE.

Since its conception in 1948, ICAFE exercised tight control over the production and marketing of Costa Rican coffee. It controlled the relations between producers, processors, and exporters. Each year it examined the costs incurred in each stage of production from the farm, to milling, to exportation. Given the world price for green coffee, ICAFE would then fix the export tax level, the minimum price producers could receive, and the maximum margins that exporters and processors could take.

The government of Costa Rica promoted coffee vigorously throughout the country's history. It created banks, railroads, highways, research stations, etc. solely to promote increased coffee production and its foreign exchange earning power. In 1994, Costa Rica had 106,000 ha. (261,820 acres) planted in coffee. It was the most productive coffee producer in the world, obtaining 1,518 Kg. (3,340 lb.) of milled, high quality arabica beans per hectare (2.47 acres) per year.

COSTA RICA'S POSITION AS A COFFEE PRODUCER-

Costa Rican coffee is generally considered by coffee experts to be one of the highest quality coffees in the world. The climate, soil and altitude conditions in Costa Rica make it possible for the country to produce this high grade bean. There are eight classifications of coffee bean produced by Costa Rican farmers; Strictly Hard Bean, Good Hard Bean, Hard Bean, Medium Hard Bean, High Grown Atlantic, Medium

Grown Atlantic, Low Grown Atlantic, and Pacific. See exhibit E for a listing of the climatological factors that produce each of these bean classifications. The top three hard bean categories make up the highest quality of coffees in the world, but even the other five classifications of Costa Rican coffee production are generally of high enough quality to distinguish them from medium grade coffees on the world market.

All Costa Rican coffee is arabica bean which is generally thought by coffee experts to have the best taste of all three commercially produced coffee species. Costa Rican coffee is sold on the world market in the category of "Washed Milds" or "Other Milds".

For decades, coffee was second only to bananas in generating foreign exchange earnings for Costa Rica. In 1985, coffee reached the peak of its importance to the country's economy, accounting for 34% of foreign exchange earnings. By 1991, this share had shrunk to 16% and tourism replaced coffee as the country's second most important source of foreign currency. Total foreign exchange earned from coffee for the 1991/92 season was \$209 million (U.S.). A table of yearly earnings from the 1987/88 season to the 1991/92 season can be seen in exhibit F.

In the 1993/94 growing season, Costa Rica exported 2.3 million 60 Kg. (132 lb.) bags of green (unroasted) coffee. This was almost 3% of total world coffee exports and showed a slight increase of 0.05 million bags from the year before. See exhibit G for Costa Rican coffee production volumes for the 1989/90 - 1993/94 seasons. Traditionally, more than 95% of the coffee exported from Costa Rica was unroasted. This value adding was typically done in developed countries.

In 1993, Costa Rica's coffee was produced by 125,000 coffee workers. Most of these people actually owned the land producing the coffee. In 1994, there were just over 100 mills in the country that processed the coffee fruit into dry green beans. There were seven major roasters that roasted any coffee that was not exported green. These roasters supplied either the domestic market or specific gourmet/specialty export markets or both.

Costa Rica's volume exported was predicted to decline slightly in the 1994/95 season. This was a response to the flat world demand for coffee and the collapse of ICA that had combined to drastically reduce prices. The only part of the world coffee market that was growing was the gourmet/specialty niche. Therefore, Costa Rica

expected to be roasting a higher percentage of the coffee it exported in the coming years.

THE COSTA RICAN MARKET FOR COFFEE-

For years, the Costa Rican coffee market was filled with the low grade remnants of what was produced within the country but not exported. There were five grades given to coffee by millers based on appearance and density of the beans. The top three grades were generally exported, and the Costa Rican consumer ended up with coffee from the bottom two grades and remnants of the third grade. As a result, ground coffee that was sold in Costa Rican supermarkets had sugar mixed into the grind to improve the taste.

ENVIRONMENTAL PROBLEMS OF COFFEE PRODUCTION-

Most coffee in Costa Rica was grown in mixed agricultural systems rather than monocultures because ownership of coffee farms was dispersed among small producers. In spite of this fact, this coffee was still the third most chemically treated crop in the world (behind tobacco and cotton). After two generations of application, green revolution technologies that called for heavy chemical use had become ingrained in the traditional coffee growing culture as a technological innovation that helped reduce labor costs. Use of many agro-chemicals was standard throughout the coffee growing world in the early 1990's. Green revolution technologies like this were so successful at raising yields that the majority of farmers stopped looking for alternative technological innovations. A common coffee farmer might apply as many as 15 different types of chemicals to his crop in order to fight insects; control molds, rusts, and fungi; kill competing vegetation; and fertilize the coffee.

There was also a significant portion of Costa Rican coffee planted in large monocultures that required even greater amounts of chemicals. Monoculture means that only one species is present in a given area. Without natural biodiversity to balance the eco-system and protect it, monoculture agricultural systems are increasingly vulnerable to pests, diseases, and depletion of soil nutrients.

Coffee monocultures that became popular in the 1970's used a planting configuration known as "full sun" or "hedgerow" coffee. Traditionally, coffee had been grown under shade, but by optimizing use of green revolution chemical technologies producers found that they could expose their coffee trees to full sun and increase their yields per hectare by a factor of three. Without shade trees to take up space, coffee trees were packed together in much denser planting

arrangements than traditional shade planting, and then the plants were bathed in chemical fertilizers, pesticides, nematicides, and herbicides. Today "full sun" planting is the 'traditional' way to grow coffee.

Although yields were lower in a shade planting configuration, the shade trees paid dividends in other ways. They could provide other crops (e.g. bananas, oranges, macadamia nuts, etc.), which would reduce the farmer's vulnerability to the price fluctuations for coffee. Shade trees also fixed nitrogen (an important nutrient for coffee trees) into the soil, prevented soil erosion, protected the leaves from sunburn, and provided biodiversity that protected the coffee trees from pests and disease. Thus, coffee grown under shade required a much lower level of agrochemical use.

The traditional coffee monocultures of the 1990's employ large amounts of chemical pesticides, nematicides, herbicides and fertilizers in order to shield the crops from damage and maintain favorable growing conditions. Under tropical rains, the chemicals applied to traditional coffee farms wash into watersheds polluting streams, and killing fish, plants and other creatures. They may also contaminate local drinking water supplies used by the human population. Furthermore, since coffee is a hand picked crop, many workers are inevitably exposed to high concentrations of chemicals for long periods of time.

In addition, although the government of Costa Rica had long since outlawed the use of chemicals banned for use in the United States and the European Community, many coffee producers openly disobeyed this law. The deadly herbicide Paraquat that had been outlawed by the U.S. in the 1970's was still in common use in Costa Rica in 1994. Paraquat's use was so prevalent, in fact, that it was included in a study that listed the five most commonly used chemical herbicides that contributed to the average Costa Rican coffee producer's basic cost structure.

Coffee processing also creates environmental problems. 80% of the weight of every coffee cherry is removed through a wet milling process. The fruit pulp, and the cellulose muselich are removed in order to obtain two green coffee beans encased in cellulose "parchment". This "parchment" is then removed before the green beans are roasted. Nearly 3 cubic meters of solid waste is generated for every 60 kg. bag of green coffee produced. Traditionally these solid wastes and their accompanying waste water end up being released directly into adjacent rivers. This is the single largest source

of water contamination in Costa Rica; it has been estimated by the E.C. Action Commission for the Support of Economic and Social Development in Central America that 60% of all river water contamination in Central America is caused by waste released from coffee milling.

The organic material produced by coffee milling fouls streams by significantly increasing the amount of particulate matter in the water. The phosphorous and nitrogen contained in this particulate matter spurs the reproduction of algae and bacteria that can consume it. The population explosion of these creatures caused by this process ends up choking off other life in the river by depriving it of limited oxygen supplies. In addition, because of the presence of fermented coffee wastes in rivers and the large amount of oxygen necessary to oxidize them, the rivers end up becoming highly acidic. High rates of fish kills are common just down stream from a wet mill coffee processor.

In response to the water pollution problem created by coffee mills, ICAFE had formed an agreement with the Costa Rican Ministry of Health and National Water Commission to clean up waste water from coffee milling. They began an incremental five year plan to mandate filtration of solid wastes and oxidization of all waste water emitted from wet coffee mills throughout the country. Their intention was to eliminate almost all water pollution caused by coffee milling in Costa Rica.

ICAFE was also working to promote the adoption of more environmentally friendly growing technologies among coffee producers in the country. This meant they had to convince coffee producers to abandon many of the green revolution technologies that they had used for 50 years, and that had given Costa Rica the highest coffee production per hectare in the world (heavy use of agro-chemicals). In addition ICAFE was studying the rate at which coffee trees could sequester carbon dioxide. They were publicizing the ability of coffee trees to clean the air of the world and reduce the greenhouse effect by taking carbon dioxide out of the atmosphere and emitting oxygen.

In addition to water pollution caused by milling, the coffee roasting process is also responsible for producing airborne pollution. In the roasting process, green coffee beans are roasted for at least 15 minutes at temperatures in excess of 260C (500F). This process makes the beans emit their internal oil, producing the characteristic deep brown/black color of the roasted beans. At the same time, roasting creates a black smoke of carbon dioxide, water, coffee oils,

and particulate coffee matter that is often released directly into the air unless catalytic converters are used to reprocess these emissions.

COOCAFE VS. TRADITIONAL COFFEE PRODUCTION-

In the 1990's, natural circumstances facing the farmers in Coocafe's cooperative and the actions of Coocafe itself created a coffee producing operation with a much lower environmental impact than that of the traditional industry. The average Coocafe farmer was very poor and only had 1.3 ha. (3.2 acres) with which to grow coffee. Therefore, they could not afford many agrochemicals, tended their land by hand themselves, and also had to raise subsistence crops (corn, beans, yuca, etc.) and animals (chickens, pigs, etc) on the same land. In addition, most Coocafe farmers were located in sunny, windy Guanacaste province and need to protect their coffee trees from sun and wind damage by interspersing other larger trees to provide shade and windbreaks.

The result of these circumstances was that most of Coocafe's coffee was grown in an environment of high biodiversity that protected it from pests, diseases, sun, and soil erosion while maintaining a great deal of soil fertility through organic methods (e.g. chicken droppings, nitrogen fixing trees, banana peel compost, etc.). In addition, Coocafe's farmer rarely used costly chemical herbicides because their farms were so small that weeds could be controlled by hand. This reduced the necessity of applying agrochemical fertilizers, pesticides, and herbicides that few of these farmers could afford. The result was coffee farms that used half of the agrochemicals of traditional Costa Rican coffee producers.

Coocafe's concern for the environment led it to conduct its milling process in a way that would both reduce the mill's impact on the surrounding environment and provide a byproduct to reduce the use of chemical fertilizers by Coocafe farmers. Coocafe strained the water they used in the milling process through a series of progressively finer filters to extract all solid wastes and suspended particulate matter. The water was then placed in an oxidizing lagoon that reduced its acidity to normal levels by raising oxygen levels within the water. The water was then returned to the river cleaner than when Coocafe got it.

Coocafe used the fruit pulp produced from milling the coffee cherries in order to produce an organic fertilizer that it could supply back to its farmers for a low price. In December, 1994 they were still looking for a way to use the muselich produced from the milling. They

were disposing of the muselich in landfills until they found another use for it. At that time, Coocafe was also in the process of switching all of its wet mills to a new water reuse technology that would allow them to cut their water use by more than 50%.

Coocafe also addressed the air pollution problem associated with the coffee roasting process. All of Coocafe's coffees were roasted, by either Neuteboom or Cafe Britt, in roasters equipped with catalytic converters. The catalytic converters captured the smoke emitted from the roasting process and re-burned it. This process eliminated the coffee oils and particulate coffee matter. Smoke from a roaster without a catalytic converted was black with a pungent odor, because it contained these oils and particulate matter. Emissions from Cafe Britt's and Neuteboom's roasters were a white steam made of water and carbon dioxide.

Never-the-less, the operations of many farmers in the Coocafe cooperatives could be criticized by environmentalists because they were not organic. Most Coocafe farmers still used some agrochemicals on their farms. Very few of those that applied agrochemicals wore the proper protective clothing. It was too expensive for many of them to buy. In addition, there were some Coocafe farmers that used the highly chemical intensive "full sun" configuration for their coffee plantings. "Full sun" planting also led to higher rates of soil erosion. Environmental groups were quick to point out all of the potential problems caused by these potentially harmful practices.

STRATEGIC OPTIONS FOR CAFÉ FORESTA-

In December, 1994 recyclable packaging was still not a feasible possibility for Café Foresta because of its cost and availability. Only three countries had the technology on line to produce recyclable coffee packaging; Germany, Holland, and Japan. More importantly, it cost over 50% more than the high quality packaging Coocafe was currently using for Café Foresta.

The recyclable package was recyclable because, unlike the current package, it contained no aluminum. It was made solely of plastic polymers and an outer shell of paper. Aluminum, however, was the preferred material in the industry for blocking light and oxygen from reaching the coffee, and for maintaining its structural integrity under the pressures of vacuum packing. All of these features were crucial to maintaining the packaged coffee's freshness. The recyclable packaging was not used by any mass marketers of coffee in 1994.

There also was no proof that the recyclable plastic package could maintain the coffee's freshness for a year like the current packaging could. Coo cafe believed that a recyclable package would be truer to Café Foresta's concept than their current packaging but, as of the end of 1994, they were still looking for a feasible package.

Coo cafe also believed that making Café Foresta completely organic would be more in line with the concept of the products and would also allow them to obtain a higher price for it. Unfortunately, ICAFE and the government of Costa Rica had spent the previous fifty years training and convincing their coffee farmers that the best (most profitable) way to grow coffee was with a heavy use of green revolution chemical technologies. Re-training Coo cafe's 2,500 farmers to reject the traditions of the past two generations and go back to farming coffee the same their great grandfathers did would take a lot of time, demonstration, and education on organic agricultural practices. This would be especially hard in 1994 and 1995 because coffee prices were very high, and were predicted to stay quite high for a couple of years. High prices gave farmers an incentive to use heavy amounts of agrochemicals in order to maximize their yields on their existing trees.

In spite of the perceived difficulties with "going organic", Coo cafe had begun an organic project in 1994. They convinced several of their farmers in two of their seven cooperatives to grow their coffee organically (completely without the use of any chemicals; pesticides, herbicides, nematicides, and fertilizers). They intended to use these farms as examples to show their other farmers that organic growing was a viable alternative for coffee production. With such small land areas to manage (1.3 ha.), these producers could use aggressive management of the plant tissue (pruning sides, bottom, and/or top) to keep yields at almost the same level as they had while using agrochemicals. Coo cafe would provide the farmers with training in this type of stimulative pruning and other organic practices. They could also provide a low cost organic fertilizer made from the fruit pulp separated from the green coffee beans during the milling process.

Although yields on an organic coffee farm might be lower than those on a non-organic farm, the organic farmer's costs would also be lower because they would not have to buy expensive agrochemicals. In addition, their farm would use a shade planting configuration that would produce other crops, retain soil fertility, and would be a healthier environment in which to live.

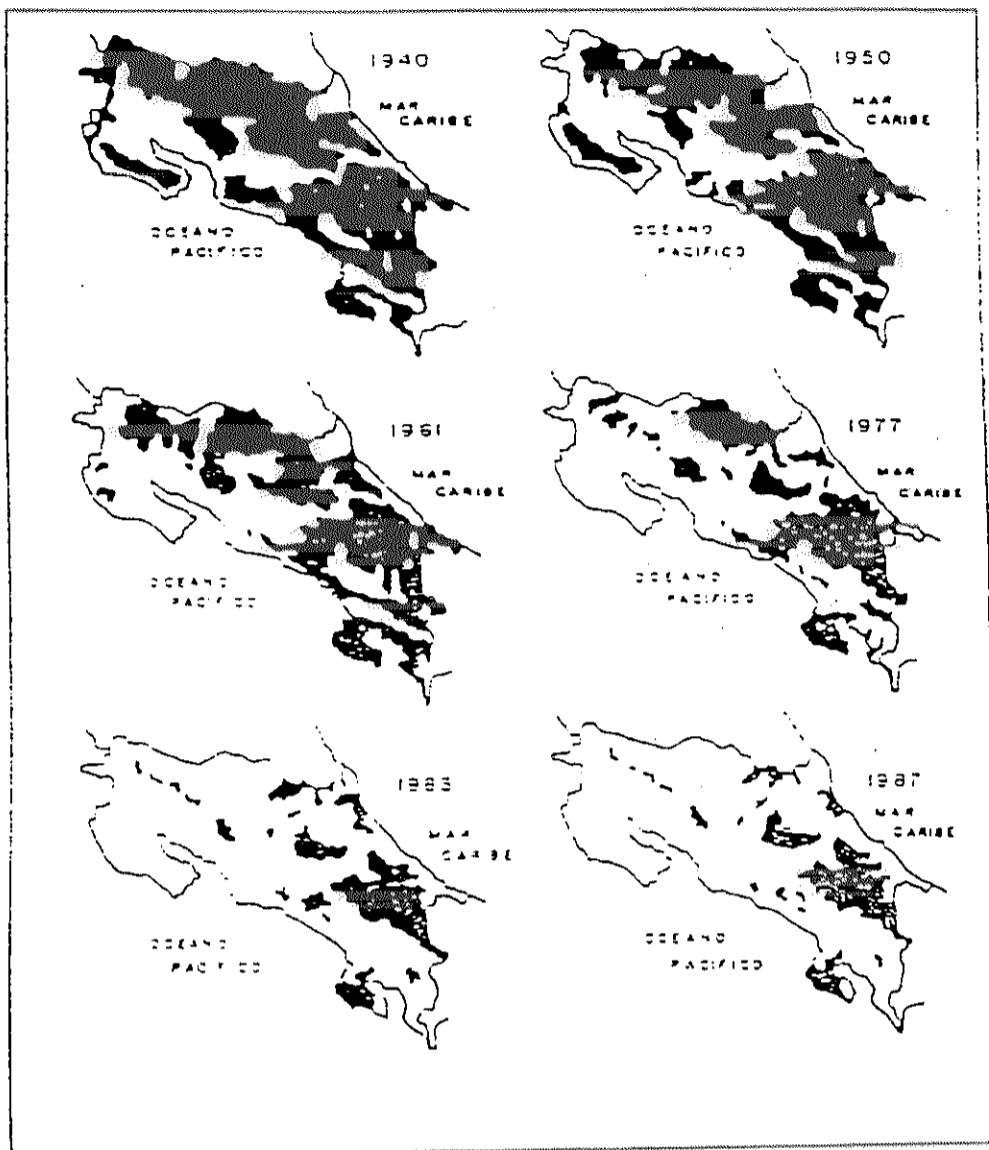
Coo cafe would have to expend a great amount of time, energy, and money to convince their farmers to produce enough organic coffee to fulfill the growing demand for Café Foresta, but an organic Café Foresta would command a higher market price and jibe with the concept of Café Foresta. As the search for a recyclable package continued, Coo cafe was also faced with a decision of how to address this issue of using a non-recyclable package in the environmentally conscious societies in which Café Foresta was marketed. They could ignore the issue. Café Foresta's main competitors (Natura and Uciri) were also using non-recyclable packaging. Or they could conduct an informational campaign to tell the public all of the good things that Café Foresta was doing for the environment and that they were looking for a viable solution to this recycling problem.

EXHIBIT A

COOCAFE COFFEE SALES -- BY YEAR

SEASON	TOTAL EXPORTS (#60 Kg. Bags)	TOTAL VALUE (\$,000)
1989/90	4,597	\$726 (U.S.)
1990/91	9,194	\$1,452 (U.S.)
1991/92	16,090	\$2,541 (U.S.)
1992/93	25,285	\$3,993 (U.S.)
1993/94	32,436	\$5,503.3 (U.S.)

EXHIBIT B



-Dense forest coverage (20-100%) in Costa Rica, 1940-1987. Source: ICF. Cartography Unit. San José, 1989.

... and for the well being of the people

FORESTAL CAFE is not only a coffee brand, but at the same time it is an initiative in favor of environment and development. This initiative was born by peasants in Costa Rica who joined forces in forming the cooperative union COCCAFE. Their aim is to secure the existence of their family farms by selling their coffee at a fair price - and to mobilize additional funds to preserve their natural living conditions.

Each and every kilogram of **FORESTAL CAFE** contributes with 1.00 US-Dollars to a special environmental fund.

An independent foundation is endowed with the task to control the proper use of these means.

FORESTAL CAFE

-A contribution to the protection of the tropical forest.

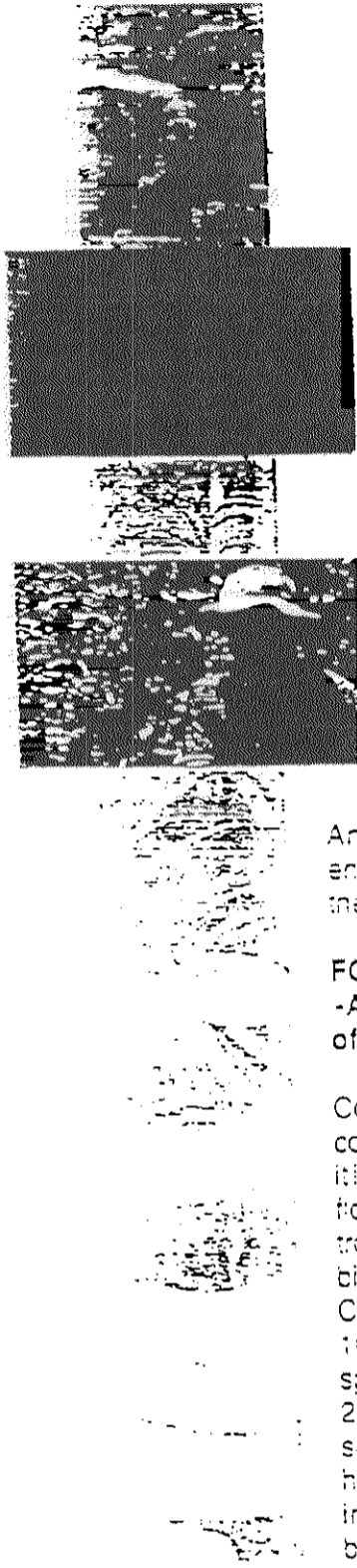
Costa Rica is one of the smallest countries in Latin America, however it is home to about 5% of the world's flora and fauna. The Costa Rican tropical forest alone hosts a larger biodiversity than the USA and Canada together. Housing about 10.000 species of plants, 250 species of mammals, 850 birds, 218 reptile, 160 amphibian, 130 species of fresh water fishes and hundreds of thousands insects including 15.000 species of butterfly...

The conservation of the Costa Rican ecological treasure depends on the country's capacity to preserve its flora and fauna. Of special importance is the protection of its tropical forests - dry forest, rain forest, cloud forest - which were reduced in the last 40 years to about 30% of its original area. In consequence, several species of animals and plants are in danger of extinction today.

But this is not the only problem. The continuing cutting of trees by the timber industry, as well as the large scale clearing of woodlands in favor of plantations and ranches, has a so adverse effects on agriculture. More than 40% of the acreage is threatened by different types of erosion.

The worsening of certain climatic conditions as well as aperiodical shortage of water are already facts. The peasant families have no choice but to live from their land and therefore have a keen interest in the protection of their environment. If funds are available, they are prepared to enter in conservation activities and doing so, will contribute to the preservation of the outstanding biodiversity in Costa Rica.

FORESTAL CAFE offers also the opportunity to the consumer to support this important idea.



CAFE
FORESTAL

FORESTAL CAFE
- Highest quality coffee.

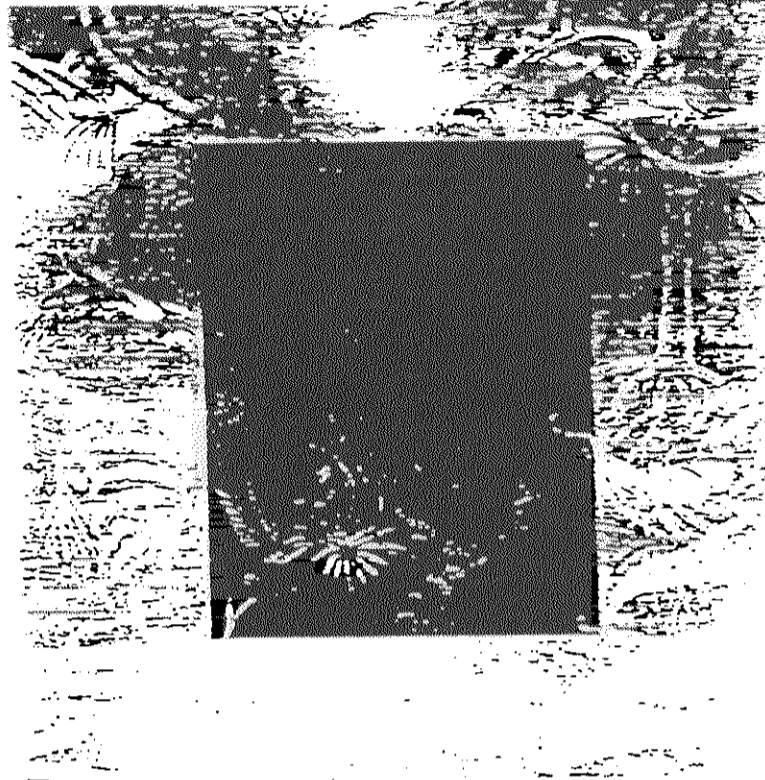
FORESTAL CAFE is the result of a careful selection and blending of Arabica Coffee, cultivated in the highlands of Guanacaste, Costa Rica. FORESTAL CAFE is vacuum packed in order to guarantee its freshness during 12 months. This blend has a perfect balance of body and acidity, to suit your taste requirements.



CAFE
FORESTAL

For more information:

COCCAFE R.L.
tel: (503) 69-0328
fax: (503) 69-0924
Apto 135
Cañas - Guanacaste
COSTA RICA



To protect the
tropical forest...

EXHIBIT D

YEARLY VOLUME OF COFFEE CONSUMED IN GERMANY

YEAR QUANTITY CONSUMED

(Millions of 60 Kg. Bags)

1988	9.308
1989	9.410
1990	9.679
1991	10.140
1992	10.205
1993	10.490

EXHIBIT E

CLASSIFICATIONS OF COSTA RICAN COFFEE

Coffee Class	Altitude	Rainfall	Rain Days	Avg. Temp.
Strictly Hard Bean	1200 - 1600 m.	2500 mm./yr.	155/yr.	19C
Good Hard Bean	1000 - 1200 m.	2250 mm./yr.	160/yr.	21C
Hard bean	800 - 1200 m.	2500 mm./yr.	158/yr.	22C
Medium Hard Bean	600 - 1100 m.	3500 mm./yr.	185/yr.	22C
High Grown Atlantic	900 - 1200 m.	2750 mm./yr.	210/yr.	20C
Med. Grown Atlantic	600 - 800 m.	2900 mm./yr.	245/yr.	22C
Low Grown Atlantic	300 - 600 m.	4000 mm./yr.	245/yr.	24C
Pacific	300 - 1000 m.	2250 mm./yr.	145/yr.	24C

EXHIBIT F

TOTAL COSTA RICAN EXPORT EARNINGS FROM COFFEE -- BY YEAR.

YEAR	BAGS EXPORTED (Millions of 60 Kg. Bags)	BAG VALUE	TOTAL VALUE (\$,000,000)
1986 - 1987	2.488	\$163.99 (U.S.)	\$408 (U.S.)
1987 - 1988	1.954	\$158.14 (U.S.)	\$309 (U.S.)
1988 - 1989	2.157	\$146.96 (U.S.)	\$317 (U.S.)
1989 - 1990	2.377	\$101.81 (U.S.)	\$242 (U.S.)
1990 - 1991	2.410	\$112.45 (U.S.)	\$271 (U.S.)
1991 - 1992	2,275	\$91.87 (U.S.)	\$209 (U.S.)

EXHIBIT G

PRODUCTION AND EXPORT TOTALS -- BY YEAR

Season	Total Production (Millions of 60 Kg. Bags)	Total Exports (Millions of 60 Kg. Bags)	Pct. Exported
1989 - 1990	2,453	2,198	89.60%
1990 - 1991	2,565	2,270	88.49%
1991 - 1992	2,530	2,365	93.47%
1992 - 1993	2,620	2,225	84.92%
1993 - 1994	2,475	2,273	91.83%
TOTALS	12,643	11,331	89.62%